

7 October 2014

To:
All CARPENTARIA EXPLORATION Ltd.
Shareholders
(CAP:ASX)



CHAIRMAN'S LETTER TO SHAREHOLDERS

The Independence of Carpentaria Exploration's Board is Once Again Under Threat

**Vote IN FAVOUR OF all resolutions for the Annual General Meeting and
Vote AGAINST all resolutions for the Requisitioned General Meeting
requisitioned by Silvergate to protect your investment**

Why Carpentaria Needs Your Vote:

- If Silvergate succeeds in putting its nominees on the Board we believe it will have gained effective control of your Company without having to offer all shareholders an appropriate price for that control.
- Your current Board has extensive leadership, commercial, legal and geo-scientific experience in the resources industry, including the successful delivery of major development projects and completion of major commercial transactions. Silvergate's two nominees have between them only one year's experience as Directors of an ASX Listed Company and they have not offered any credible reasons why their skills and experience are superior to those of the existing Board.
- Silvergate's interests are not aligned with other shareholders. Having invested circa \$24 million in the Hawsons project against \$8 million in the Company, its focus is on gaining access to value in the joint venture rather than committing to building value in Carpentaria for all shareholders.
- Your current Board has a track record of sound capital management and demonstrably acting at all times in the interests of all shareholders.
- If Silvergate succeeds in putting their nominees on the Board, the Company will not comply with the governance standards recommended by ASX and ASIC that are designed to protect all shareholders. Consistent with these standards, three out of five directors on the Carpentaria Board are independent. Silvergate is proposing a smaller Board of three directors, a majority of whom will not be considered independent.

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- **The Carpentaria Board of Directors strongly opposes Silvergate's resolutions and recommends you vote against each of their resolutions in order to protect your investment.**

PLEASE READ AND ACT ON THE FOLLOWING INFORMATION

Dear Shareholder,

I am writing on behalf of the Board to seek your support and provide important information in relation to Silvergate Capital's ('Silvergate') action in requisitioning a General Meeting ('Meeting') of shareholders which will be held immediately following the Annual General Meeting ('AGM') on 10 November 2014. The Notices of Meeting for both the AGM and the Requisitioned General Meeting ('Meeting') are attached.

At this Meeting, Silvergate intends to obtain effective control of Carpentaria Exploration Limited ('Carpentaria' or 'Company') and the Hawsons Iron Project by seeking the removal of four of the five current Directors including me, Dr Neil Williams, Mr Bob Hair, Mr Paul Cholakos and Managing Director Mr Quentin Hill. They have nominated two candidates, Ms Linda Lau and Mr Malcolm Northey.

I cannot emphasise too strongly how important your vote will be at this Meeting in continuing to ensure that your Board remains independent and that decisions are made in the best interests of **ALL** shareholders.

Silvergate is one of Carpentaria's major shareholders and, as you will be aware, this is the **third time** that it has requisitioned a General Meeting to remove two or more of the Board directors in less than two years. The reasons given by Silvergate lack credibility and in some instances misrepresent the facts.

In this letter I set out the facts and update you on the steps taken by this Board to progress the Hawsons Iron Project and ensure our costs are being tightly managed to reflect the challenging environment currently facing all resources companies.

Importantly, this meeting is not really about the size of the Board, its skill set and experience or commitment to prudent management of the Company's cash position. It is about a shareholder with an 18% interest in the Company and a recently earned-in 40% interest in the Hawsons Iron joint venture, attempting to take effective control of the Board and the Company without offering an appropriate price for that control.

Silvergate and Pure Metals Interests are not aligned with Carpentaria Shareholders

Silvergate is wholly owned by Ample Source International (ASI) which is also the controlling shareholder in Pure Metals. ASI has over the past five years invested circa \$24m in the Hawsons Iron project and less than \$8m in its 18% stake in Carpentaria. Its strongest financial commitment is therefore to the joint venture, a relationship that ASI fought hard to preserve following the liquidation of the original joint venture in 2013.

The board is accordingly very conscious that ASI's interest in Carpentaria via Silvergate is more about gaining access to the value in the joint venture than the long term commitment to building shareholder value in the company.



Therefore there is a strong misalignment of interests between Carpentaria's major shareholder, Silvergate and all other shareholders. Maintaining an independent board will ensure that ASI, via Silvergate, will not make decisions that ultimately reflect their interests as opposed to maximising the return for all shareholders.

What your Board has delivered since the last requisitioned Meeting in March 2013

Over the past 18 months we have focused on developing a productive working relationship with Pure Metals (the successful bidder for the rights to 40% in the Hawsons Iron joint venture acquired from the liquidator of BMG Pty Ltd), a company closely associated with Silvergate.

In March 2013 your Board negotiated an agreement with Pure Metals whereby the two companies would work together to continue the Hawsons Bankable Feasibility Study (BFS) and to secure a development partner for the Hawsons Iron Project. In June 2013 Pure Metals took over management of the joint venture during the earn-in period for its 40% share. In June this year Carpentaria resumed management control of the project, as agreed with Pure Metals, and has continued to target those activities which will drive the project forward.

Carpentaria continued to undertake targeted exploration activities as part of its mandate with shareholders to identify new opportunities for growth and build on its success with Hawsons. However, earlier this year the Board and management reviewed the Company's strategy in light of ongoing market uncertainty in the resource sector. As a consequence, first steps were taken to transition the Company away from exploration activities to that of a resources company dedicated to the targeted development of its best asset, the Hawsons Iron Project.

The Company is able to do this from a position of financial strength because of your Board's history of strong capital and cash management, demonstrated by the low number of shares on issue and strong cash balance deep into a cyclical downturn. This position is in large part a result of the March 2013 deal your Board made with Pure Metals in the lead up to another requisitioned meeting by Silvergate. The Board secured reimbursement of \$3.8 million and an additional \$5 million in project investment. This allows the Company to make choices on the targeted progress of the Hawsons Iron Project and build a platform for growth.

This is a clear example of what is at risk if Silvergate [Pure Metals] has effective control over the Board.

The Board of Carpentaria is focused on maintaining the Company's financial strength in the medium term and currently has a balance of cash and equivalent of over \$4,500,000. The sharpening of our focus on the Hawsons Iron Project and the associated targeted cost reductions will allow for a significant decrease in expenditure and ongoing costs.

The extended weakness in the resources sector and collapse in the iron ore price

Silvergate asserts that the loss of shareholder wealth over the past 24 months is due to significant errors of judgment by the Board. It has little to say about the depressed market for resource stocks, with exploration companies and those exposed to the iron ore price particularly impacted. Carpentaria has suffered, along with others in this sector, but it is disingenuous to ignore the impact of global shifts in the price for iron ore and other base metals and attribute the fall in its share price directly to the judgment of the Board.



This Board has been responsive to the changing climate. In 2014 it has presided over a significant restructure to the Company which has reduced its annual cost base by 30%, focused development expenditure on the Company's best asset, and reduced the size of the Board from six to five. In addition plans are approved and in place to reduce Board remuneration in the current financial year, with each non-executive Director electing to reduce their annual compensation by \$10,000 each, including the Managing Director. This will result in total board remuneration falling by more than a third.

We agree with Silvergate that prudent management of cash reserves is paramount in this investment climate, but doing nothing is not an option either if the Hawsons Iron Project is to be developed and a partner secured.

Access to Project Funding for the Hawsons Iron Project

Silvergate argues that their representation on the Board will increase the prospect of a transaction and that the existing Board does not have the ability to bring additional funding to the Hawsons Iron Project.

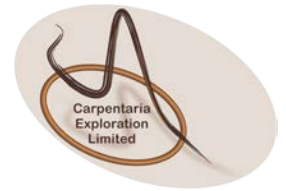
In March 2013 Silvergate's beneficial owner, Wilson Cheung, was publicly invited to join the Board. The same offer had been made on numerous occasions. Your Board has continued to offer Silvergate a Board position, including as late as last month. However, we can only conclude that "meaningful representation" for Silvergate means control of the Board.

Silvergate also stated that the nature of the joint venture contributes to its difficulty raising project funding. Carpentaria recognises that further project investment from Pure Metals is positive for the project and has offered to renegotiate elements of the joint venture that may be restrictive. Pure Metals has, so far, shown no interest in this offer.

Your Board has always responded to Silvergate's approaches with an open door, indicating that if they have a commercial transaction of benefit to all shareholders, then they should present it to the Board for assessment. In over 2 years, they have not been able to do so.

Silvergate make reference to a decision by the Board in 2012 to reject separate funding and offtake proposals brokered by them as unforgivable. The proposal from Silvergate that was put to the Board in 2012 was presented at the same time as it suggested it could requisition a General Meeting to take effective control of the Company. Under these circumstances the Board still chose to assess the proposal on its merits but ultimately rejected it on the basis of value and risk. Silvergate, as suggested, called a General Meeting in November 2012 to replace the independent directors on the Board with their own nominees who would be more inclined to approve its proposal. As history records, shareholders overwhelmingly supported the Board.

This example, and that of the second Requisitioned General Meeting, called for March 2013, both serve to highlight the lengths to which Silvergate will go to improve its commercial position over others and should not be forgotten when considering Silvergate's latest proposal. This General Meeting is in all respects a rerun of the 2012 General Meeting and we do not believe that Silvergate interests are any more aligned with minority shareholders now than they were then.



Conclusion

Shareholders need an independent Board to protect their interests. While Silvergate argues that it is the most likely party to bring funding to the project, it has had many years to bring additional participants to the project on fair terms and has not delivered. Silvergate make no promises now. However, Carpentaria remains open to reviewing any commercial proposition Silvergate brings to it and encourages it to do so.

We strongly believe that, should Silvergate prevail, your investment would be controlled by a shareholder with less than 20% of the issued shares and a strong conflict of interest as the Hawsons Project joint venture partner. In our view this represents a significant risk to your investment.

The Board will continue to evaluate market conditions and its current focus is to build a solid platform for further investment in the Hawsons Iron Project, which it believes can become a long term producer of premium iron concentrate, securing a place in this growing part of the market.

I urge you to vote against each of the proposed Silvergate resolutions and support the continued independence of the current Board which remains committed to acting in the best interests of all shareholders.

If you have any queries regarding the Meeting, the recommendations or need assistance with the proxy form, please call the Shareholder Information Line on 1300 560 339.

A handwritten signature in black ink, reading "Neil Williams", is positioned above the name of the signatory.

Dr Neil Williams